

## ***‘How fair is Fairtrade?’: an evaluation of the Fairtrade movement in 2013***

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### **Abstract**

The *Fairtrade* Foundation was founded in England in 1992 as a charity designed to raise awareness of the exploitation of farmers from the third world. This article will examine the *Fairtrade* model and analyse the labelling system which was introduced in the late 1980's in Holland and established in the UK in 1992. The concept of *Fairtrade* is explained and the processes of how individuals and businesses work with the *Fairtrade* Foundation are explained. This article explores how *Fairtrade* has expanded over the last two decades and evaluates if it is still benefitting producers in developing countries in 2013. *Fairtrade* has generated a fierce debate between its critics who accuse it of losing sight of their aims as they look to expand while its advocates continue to support it strongly. This paper concludes that *Fairtrade* should only be considered as an interim measure for the progression of establishing 'Fair trade principles' throughout the globe, as it does not represent a 'perfect solution'.

**Key words:** Ethical marketing; certification; producers; sustainability; free trade.

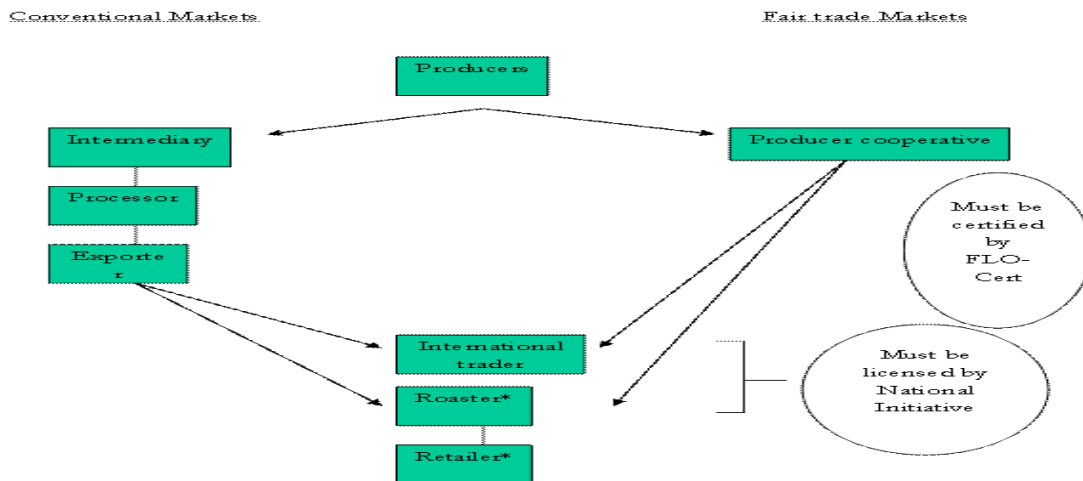
## Introduction

The exact origin of *Fairtrade* is unknown but it is considered to have begun in America where *Ten Thousand Villages* was established (formerly *Self Help Crafts*). This organisation originally bought needlework from Puerto Rico and its first shop sold products through *Fairtrade* in the USA in 1958 (European *Fairtrade* association 2006). *Fairtrade* did not initially take off until they brought in the certification initiatives. *Fairtrade's* key objectives are now to ensure that producers receive prices that cover their average costs of carrying out sustainable methods during production and to also limit the impact on the environment (*Fairtrade*, 2011). *Fairtrade* to this day still provides products such as coffee and chocolate which they produce to be sold by separate retailers e.g. CO-OP and Tesco. Each 21 members of FLO (*Fairtrade Labelling Organisation* International) have the opportunity to produce their own products to be sold in the country in which the particular member is based. The products which each member provides vary enormously, for example, *Fairtrade* USA provide sports equipment and body care products. The *Fairtrade* foundation (UK consortium) was established in 1992 by CAFOD, Christian Aid, Oxfam, Traidcraft, the World Development Movement, and the National Federation of Women's Institutes (*Fairtrade* Foundation, 2011). It now boasts a much larger group of member organisations since 1992 which now include, Banana Link, Methodist Relief and Development Fund, National Campaigner Committee, Nicaragua Solidarity Campaign, People & Planet, Scottish Catholic International Aid Fund along with many others (*Fairtrade* Foundation, 2011). According to Witkowski (2005: 23):

*Fairtrade* is a movement promoting trading partnerships based on dialogue, transparency and respect, and seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and work.

*Fairtrade* is a charitable organisation which brings together farmers, large multinational organisations and consumers with the aim of achieving a fair price for underprivileged farmers. To achieve this *Fairtrade* use their labelling initiatives, by certifying products which only meet their standards. This begins by auditing the farmers, then once the farmers have passed these assessments they pay a fee of certification which enables them to sell their products with the *Fairtrade* label. They are then sent to wholesalers who work with the

*Fairtrade* organisation and from here on these products are bought and used by retailers such as 'Cafe Direct' and 'Liberation' it is also possible to purchase the produce straight from manufacturers (see Figure 1 below).



**Figure 1 Coffee Supply Chain** (Milford, 2004)

To try and ensure *Fairtrade* are unbiased in the decisions it makes, the board is comprised of members from each field the organisation is affiliated with. *Fairtrade* also decides on the price at which the commodities are sold. This is done through a process involving both traders and producers who agree on a price to ensure that the producers will receive a reasonable price to hopefully achieve a viable and sustainable business. Along with this strategy to achieve sustainable farming in third world countries, the *Fairtrade* foundation also provide and agree initiatives with the organisations that purchase their products to invest their own profits into the local area. For example, Cadbury invested £45 million in cocoa farms in Ghana, India, Indonesia and the Caribbean (Cadbury World, 2013). The core of the *Fairtrade* model is designed to ensure that certified traders purchase their produce from certified producers and pay a minimum price which is set by Fair Trade Labelling Organisation (FLO).

Ethical marketing is a process which companies use to generate interest in their products or services by incorporating social and environmental considerations in their products and promotions. One reason why many organisations have signed up with *Fairtrade* is because of the growing importance of *ethical marketing*. Ethical marketing was first

brought to the world's attention when it was taught at the university of Wisconsin in 1969 (Hunt and Vitell, 2006). However ethical marketing took off in the UK till 1980's partly due to a consumer product poisoning incident involving a company called Tylenol. If it was not for swift and honest communications to the public it would have likely been a devastating blow for the company and may of lead to its closure (Kaplan, 1998) Schultz (1997) therefore argued that ethical marketing is the most critical marketing issue affecting an organisations success and even survival. Since the growth of ethical marketing during the 80's it is now standard practice for many leading global companies.

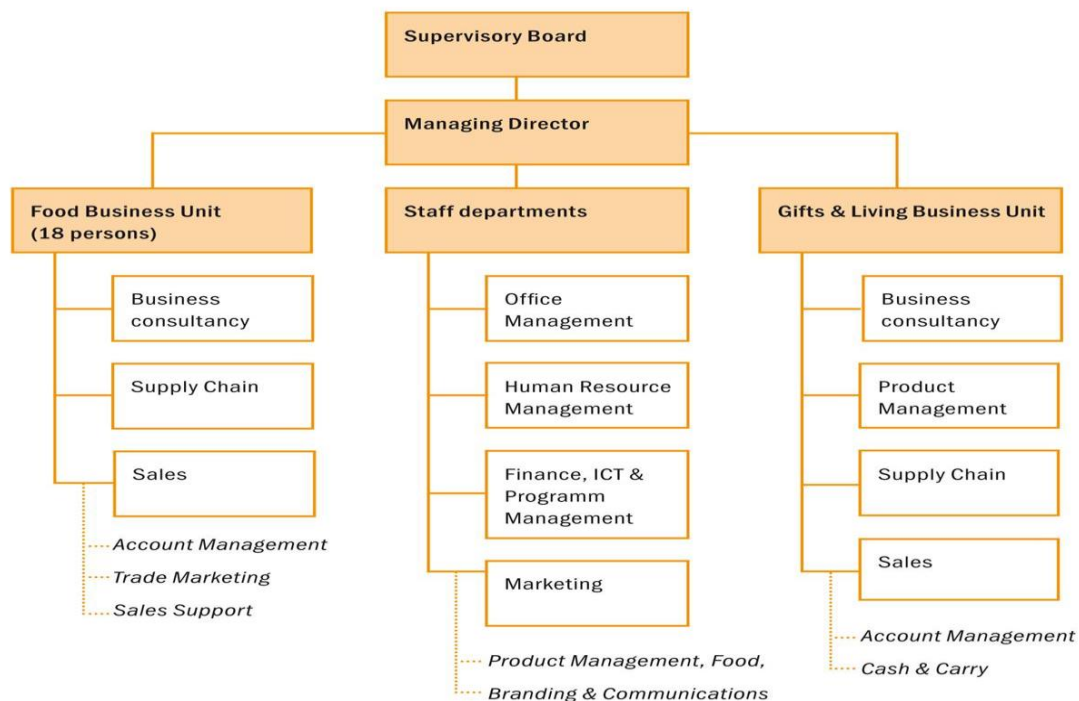
Doane (2001) defined ethical consumption as the purchase of a product that concerns a certain ethical issue (human rights, labour conditions, animal well-being, environment, etc.) and is chosen freely by an individual consumer. Consumers have become more aware of what happens around the world due to the spread of the internet which allows them to pick and choose products which they believe to be ethical. This has been evident with the boycott campaigns against Nike because of alleged labour abuses and Nestle' because of the infant formula issues (Auger, Devinney, and Louviere 2000; Carrigan and Attalla 2001; Creyer 1997; Shaw and Clarke 1999; Strong 1996).

### **How does the model work?**

FLO is based in Germany and has 21 members around the world who produce or promote products that carry the *Fairtrade* certification mark. Each foundation in each country will have the necessary skills to manage the changing local scenarios as there will be differences in demographics and the needs of the people. The FLO developed the *Fairtrade* labelling model and are responsible for decision making within *Fairtrade International*. Members include three producer networks, 19 national *Fairtrade* organizations (covering 24 countries), three marketing organizations, and two associate members. *Fairtrade* work in 59 developing countries with underprivileged farmers, these farmers produce the necessary materials for the 24 countries which FLO sell too, and currently 7.5 million underprivileged farmers are being helped via this scheme (*Fairtrade* Foundation, 2011). When making major decisions the board of FLO ensure they have a good mix of individuals who represent all major parts of their foundation. These are five representatives from the *Fairtrade* Labelling Initiatives (LI), four representatives from *Fairtrade* certified producer organizations (at least

one from each of the regional producer networks), and two representatives from *Fairtrade* certified traders and three external independent experts.

The *Fairtrade* Foundation tries to ensure that the most deserving applicants receive the certification mark and requires all applicants to pass a rigorous assessment on standards relating to social, economic and environmental criteria (*Fairtrade* Foundation, 2011). Once they have completed this assessment they are able to. Currently *Fairtrade* employ a 100 people (UK foundation), which work in these areas, Executive Office, Fundraising, Human Resources, Finance and IT, Commercial Relations, Public Engagement, Product Integrity and Policy and Public Affairs. Each particular part has a purpose of ensuring that the foundation can reach the aims and targets it has set of itself (see Figure 2 below).

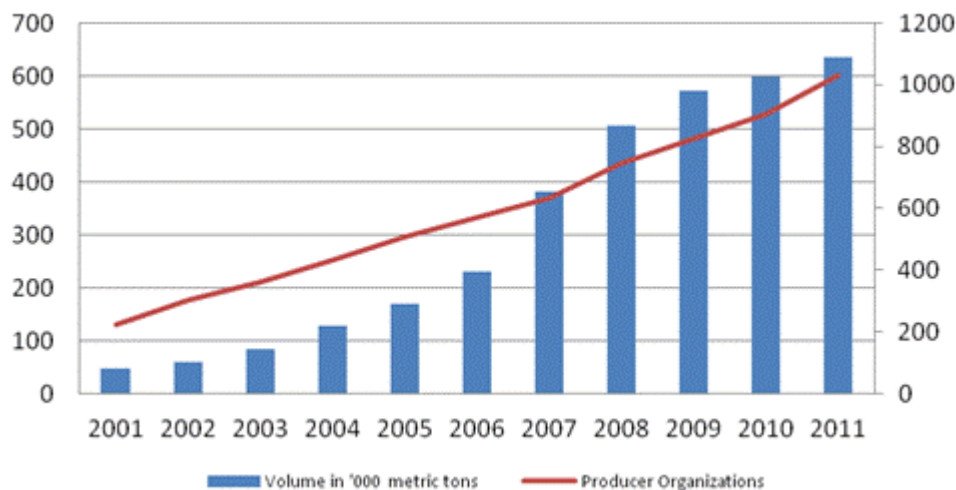


**Figure 2** *Fairtrade* organisational chart (*Fairtrade*, 2010)

## The Case for *Fairtrade*

Advocates of *Fairtrade* believe this to be the most efficient, ethical and socially responsible method to provide necessary help to disadvantage producers in many countries throughout the world. Consumers can express their concern about the ethical behaviour of companies by means of ethical buying and consumer behaviour. This has led to the ethical consumer feeling responsible towards society and expresses these feelings by means of his or her purchasing behaviour. This is evidenced by the growth of *Fairtrade*, for example, in the United Kingdom 40% of households purchased *Fairtrade* products in the past year, an increase of over 21% on the previous year (TNS Superpanel Research, 2006). This proves that *Fairtrade* has consumer support making *Fairtrade* a more commercially attractive venture for retailers.

In Africa alone *Fairtrade* as stated on their website work with over 500,000 African small-scale producers who produce products such as gold, citrus fruits and dried fruits which then supply the international *Fairtrade* market in 24 countries” (*Fairtrade* Foundation, 2011). *Fairtrade*s involvement expresses their intent to improve and provide the necessary help in these deprived areas. The numbers of producers and the volume produced through *Fairtrade* has seen a dramatic increase as shown in Figure 3:



**Figure 3 Growth in *Fairtrade* Supply 2001-11** (*Fairtrade* International, 2012).

The large organisations with which *Fairtrade* work with also provide other forms of funding. For example, Cadbury invested £45 million pounds into farms to build up farms and the local area around these farms, not only improving the life of the farmers and producers but many lives of the local and indigenous people. An example of Cadbury doing this is their

donation and distribution of solar lanterns is the Cadbury Cocoa Partnership, a social intervention initiative of the Cadbury confectionary company, has distributed 10,000 household solar lanterns to cocoa farmers in 160 communities in Ghana (*Renewable energy magazine*, 2011). *Fairtrade* supports farmers and also encourages companies to invest further into farmers and other initiatives, for instance Cadbury Schweppes and Ghana Nature Conservation Research Centre (NCRC) have partnered together to initiate a three year project which aims to improve biodiversity levels of cocoa farms in Ghana and establish the country's first cocoa farm eco-tourism initiative (*EarthWatch Institute*, 2012).

*Fairtrade* foundation state their aim is only for the farmers to receive a fair contribution to the costs they incur in producing the product. As shown by the required amount of spending per tonne of cocoa beans chocolate companies pay the guaranteed *Fairtrade* minimum price of US\$2000 per tonne of cocoa beans or the current world market price, whichever is higher at the time (*Fairtrade* Foundation, 2011). The minimum price is based on the costs of production and aims to protect smallholders from the volatility of cocoa prices. Ensuring that they do not over pay the producers and deter the larger corporations from investing in this scheme, while still providing them with a larger amount and a more stabled income compared to trading without *Fairtrade*. Ronchi in one of the few studies looking at producers show that the *Fairtrade* producers have higher incomes than producers who do not produce coffee to be sold via *Fairtrade* (2002). *Fairtrade* offers a fund to help with the cost if a group of farmers are not able to afford it. The producer certification fee was introduced in 2004 to cover the costs of inspection (*Fairtrade* Foundation, 2011). Since introducing this fee FLO has been able to improve the time and quality in which these inspection processes are carried out. Although this fee is charged many producer groups have found that in investing in certification with *Fairtrade* enables them to gain access to the *Fairtrade* markets allowing them to sell at higher *average* prices.

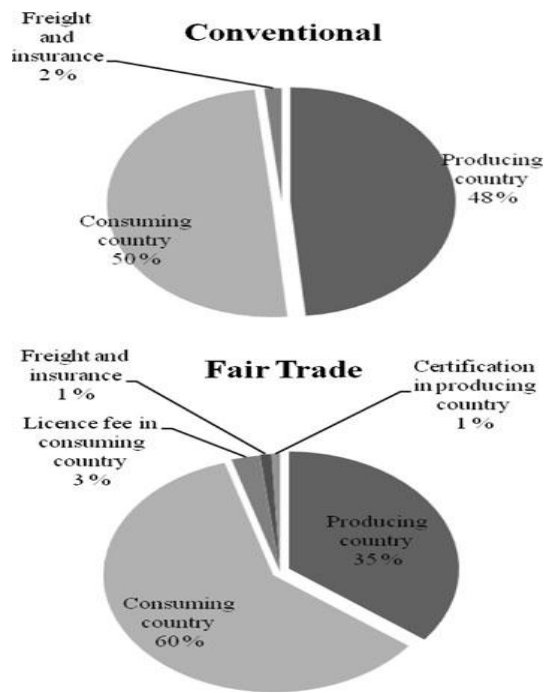
One of the main arguments used to by critics to tarnish the image of *Fairtrade* is how it goes against the principles of free trade. However free trade still has many disadvantages for instance it can hurt domestic producers as larger corporations seek to take advantage of differing labour laws in the different countries. Nike a global company is often used as an example of a high profile company who cares more about their image than the rights of their workers in third world countries (Ross, 1997). This is what *Fairtrade* is trying to combat against, as *Fairtrade* looks to empower these impoverished producers

## **The Case against *Fairtrade***

Not much is ever said to dispute ethical organisations but when they are thoroughly analysed aspects which were not made apparent by the organisation can be exposed. A good example of this is that occasionally only a small percentage of the extra paid for a *Fairtrade* product actually reaches the producers. An example of this was identified in the United States of America where coffee sold via *Fairtrade* at five dollars a lb extra at retail would hopefully bring a large amount of extra profit for the producers, however it was reported that only two percent of this extra paid for the products was received by the producers (Kilian et al 2006, p 332) *Fairtrade* have admitted that only a little percentage of the extra paid for the final product actually reaches the producer clearly showing they do not go to the full lengths they are capable of ensuring their producers receive a fair price which is supposedly the main aim of the organisation. Evidently this is not as fair as it could be an example of producers receiving less than they should is in Finland where consumers paid a large amount more for certified coffee than for coffee without *Fairtrade* certification, but only 11.5% of the extra paid for this coffee ended up with the producer (Valkila, Haaparanta and Niemi, 2010).

A large share of the extra paid remains within the consumer country, this is evident in the fact that it appears finish retailers actually take very low margins for coffee which is not sold via *Fairtrade* (Valkila, Haaparanta and Niemi, 2010). However when *Fairtrade* coffee it sold the margins are much larger and a very large amount actually remains in Finland and a low amount is transferred back to the producer (see Figure 4 below).





**Figure 4 retail prices in Finland** (Valkila, Haaparanta and Niemi, 2010)

Around an average of 2-4000 dollars is paid by producers to be certified (*Fairtrade* Foundation, 2011). Although it is normally a group of farmers who pay this sum it could be said that it is unfair to charge them for the certification anyhow. This is one reason why many people have been so critical of *Fairtrade* in recent years as the added cost of certification and product segregation may make the benefits of participating in *Fairtrade* minimal (Douglas Murray et al. 2007). Farmers who apparently have paid to be certified apparently are unaware as some studies have found that under a half of certified coffee coops in Ethiopia knew they were certified and even fewer knew what certification meant (Jena et al. 2012: 440). This evidence seems to suggest that there is a lack of effort on *Fairtrade's* part to ensure that the people who are supposedly benefiting from the scheme actually know how they are benefiting.

Free trade has been adopted by countries all over the world due to the fact free trade has many beneficial components and is a major catalyst in increasing trade and competition. This increase in trade and competition drives down prices, which leads to an increase in the purchasing power of consumers. Krugman states that "For one hundred and seventy years, it has been widely appreciated that international trade benefits a country whether it is "fair" or not" (1987, p131). This concept means that prices are therefore determined by competition and the demand for products. However *Fairtrade* actively set out to control the prices of the

product which they sell, although this is to protect the farmers from receiving a pittance for their produce it is affectively going against the concept set up by the participating countries. *Fairtrade* effectively are against free trade however as Kowalczyk and Reizman stated “A move to global free trade would imply higher world economic welfare” (2009, p147). The reason for why it would imply higher economic welfare is that global free trade will likely lead to an increase in global output, leading to specializing among countries. This in turn will allow poorer countries to devote the majority of their resources to areas they specialize in which will likely lead to all countries sharing a comparative advantage over one another. *Fairtrade* act against these principals and can limit the economic welfare of nations.

## **Conclusion**

Throughout the article arguments by advocates and critics were analysed to build a picture of the claims put forward by *Fairtrade* enabling us to uncover what *Fairtrade* is aiming to achieve and how. After analyses it was apparent that the premise of *Fairtrade* and their aims which they are trying to achieve are not generally disputed but how they go about trying to achieve these aims are. As previously discussed *Fairtrade* products are charged at a premium compared to products without *Fairtrade* certification. For instance on average 46% of European consumers also claimed to be willing to pay considerably more for *Fairtrade* certified products (MORI 2000). Therefore it could be said that in certain countries like the UK it could possibly discourage them from donating to charities if they believe they are already providing help for underprivileged farmers by purchasing *Fairtrade* products. A direct consequence of this may be an impact to charity donations due to consumers feeling as if they have made appropriate donations to just causes already. From the research shown and discussed previously *Fairtrade* does appear to be tokenism and tokenism is the practice of making a token effort or doing the minimal necessary to complete a task. Therefore it may be beneficial to only encourage *Fairtrade* as an interim measure.

To improve *Fairtrade* further an overhaul of the model needs to be carried out, leading to an introduction of new procedures, such as going to the lengths of providing farms for potential farmers thus enabling them or instead of having farmers having to pay to be certified make the application process free. Although it would be less cost effective then how it is currently operating, it will go a long way to ensuring that all critics of *Fairtrade* are silenced. Therefore in conclusion it would be beneficial to increase *Fairtrade* and its current

workings, however to truly eradicate poverty throughout the world *Fairtrade* will not go far enough to actually eradicate it. Therefore *Fairtrade* should only be seen as a temporary solution. For a permanent solution to be provided, the western superpowers need to push for political change to see truly meaningful results.

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